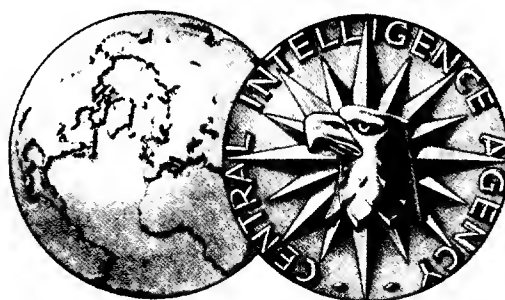


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REVIEW OF THE WORLD SITUATION



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S E C R E T

REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY OF THE UNITED STATES

SUMMARY

1. *The Soviet Bomb*: the military security position of the US has undergone no immediate and drastic change, but the over-all US security position is now subject to inevitable and fundamental modification.

2. Devaluation, having set in motion economic adjustments of which the ultimate effectiveness cannot yet be estimated, has also generated collateral political stresses in the UK, in Western Europe, and in Indian-Pakistani relations.

3. The violence of the Soviet reaction to Yugoslavia's candidacy for a seat on the UN Security Council demonstrates how seriously Tito's defection menaces the Soviet control of international Communism. From Tito's point of view, the action, even though it may not gain the seat, strengthens his defenses against the USSR.

4. The concentration of the USSR on Tito and the virtual abandonment of guerrilla activities in Greece brings up the possibility of guerrilla strength being directed toward Yugoslavia. Slavo-Macedonian aspirations would provide the channel.

5. *The Far East*: the establishment of the People's Republic of China brings closer the difficult problem of recognition. In Southeast Asia, events in Indochina point directly to a French failure. Stability in Indonesia is coming increasingly to depend on the speed with which a reasonable compromise emerges from the Hague Conference.

6. There have been no important developments in Latin America. A general state of political instability continues to be adverse to US interests in Hemisphere solidarity.

Note: This review has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force. The information herein is as of 14 October 1949.

S E C R E T

S E C R E T

REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY OF THE UNITED STATES

1. The Soviet Bomb.

The atomic explosion achieved by the USSR has introduced a new, though not unexpected, factor into the problem of US security. The situation calls for two general types of examination. The first is concerned with changes in the US security position in terms of the balance of military power between the US and the USSR. The second is concerned with psychological and political imponderables and the extent to which the USSR can manipulate them in an attempt to alter or neutralize politico-strategic alignments in the non-Soviet world.

For the moment, the military security position of the US has undergone no instantaneous and fundamental modification. If it was valid previously to point to an exclusive possession of an atomic technology as a significant item on the US side, it is still valid to point to a superior US stockpile as a significant item.

The power value of exclusive knowledge was recognized, however, as being limited in time. The power ~~of~~ value of a superior stockpile is similarly limited. Probably an essential first step in re-examining the over-all problem of US security is to determine the time at which the rising curve of a Soviet stockpile will reach a point at which it can be considered operationally effective. This date will mark the end of a strictly limited period of transition as far as a balance of purely military power is concerned.

With respect to the manipulation of psychological and political imponderables, it is possible that there will be no equivalent period of transition, or that it will be very short. Here, it is the Soviet ability to stockpile that is significant, and not the size of the stockpile. The fact that atomic technology is no longer exclusive permits the USSR to exert psychological and political pressures in Western Europe and to do so before the US has built

up there an effective political, economic and military bulwark. There are no signs yet of the exertion of such pressures and no accurate basis for estimating probable reactions. But it is certain that the USSR has an enhanced "cold war" capability.

2. Devaluation.

The initial currency and foreign exchange adjustments to the fact of British devaluation have been made. The speed with which they were completed suggests a readiness for action that somewhat discounts the cries of anguish and outrage that arose. The second round of consequences, involving political problems, is now rapidly developing.

On the purely economic side, the major pressure leading to devaluation was the problem of dollar deficits. Devaluation will not of itself solve this problem. The maximum effect to be expected will be the creation of a more realistic base from which to develop more significant attacks on the problem. Initially, devaluation in and of itself will lower production costs in dollar terms, improve the competitive position of devalued goods in the dollar market, and initiate changes in production patterns as dollar sales increase and dollar imports decline. But unless devaluation leads rapidly into measures to increase productivity, reduce costs, attract capital, stimulate investment, and control inflationary pressures, the action will exhaust itself with little or no effect on the problem of dollar deficits.

Devaluation has, however, already generated collateral political problems. As the internal economic consequences of devaluation develop in the devaluing countries, these problems will tend to become domestic political issues. Generally, internal prices will rise and living standards will be adversely affected. Concurrent pressure for wage increases can be expected and, in some countries, will lead to

S E C R E T

2

labor unrest. Certain significant political by-products of devaluation, of interest to US security, are discussed below.

a. British Politics.

The popular political reaction to devaluation has not yet crystallized. In part, as in the Trade Unions, attention has been fixed on the possible immediate effects of the action on traditional labor interests. In part, as with the public generally, the key problems were so technical and remote that no basis has yet developed for a broadly felt response.

The recent Parliamentary debate on devaluation revealed, however, the existence of very powerful political considerations. While professional financial and commercial opinion generally agreed that devaluation required supplementary concrete measures if its momentary benefits were to be improved upon, the shadow of a General Election fell darkly over the speeches of both parties. A serious debate on the UK's economic requirements proved out of the question. Since possible supplementary measures were believed likely to raise popular ill-will, both the Government and the Opposition avoided unpleasant realities. Instead, both parties electioneered.

The most general opinion was one that considered an immediate General Election desirable on the ground that requisite action could not be taken until the air was cleared of political maneuvering and the fundamental issues could be frankly and sharply debated. But, on 13 October, Attlee announced that there would be no Election until 1950. Though the Cabinet was long divided on the question, the decision suggests that it has been concluded that the Labor Party's program will show positive results in six to eight months. However, no significant internal measures supplementary to devaluation have yet been announced.

b. Western Europe.

A broad pattern of reaction to devaluation has started to shape up. It focuses sharply on the basic problem of trade revival as the next step in attacking the dollar shortage. It involves a use of ERP aid in the form of incentives to increase trade, and it has led to OEEC proposals for extensive reductions of import restrictions between Western European

countries. In the background, are the proposals for a thoroughgoing economic union which emerged from the first meeting of the Council for Europe.

Development within this pattern is, however, interfered with by political factors. Devaluation by the UK was considered a needlessly drastic and unilateral action. In France, in particular, exaggerated charges were made about the initiation of "economic warfare." More generally, it was suspected that the US and the UK were devising a broad policy line in which continental interests and problems were being subordinated. Already suspicious of British "foot-dragging" with respect to Western Europe, considerable anti-British sentiment came to the surface. Enough still remains to make relations difficult at the moment.

Further political difficulties have arisen in France and in connection with Allied authority in Germany. The devaluation of the West German mark generated an issue with wide ramifications. French resistance to the percentages of devaluation proposed was simultaneously bitter and official. It involved considerations of commercial competition, coal prices, the degree of authority to be permitted in the West German State, doubts about US and UK intentions with respect to Germany, and security phobias. The French, by virtue of their position on the Allied High Commission and because the terms of reference of the Commission are broad and vague, are able to frustrate legislative action by the German Government. The position of the US is precarious in this situation. The German Government, seeing the US as the dominant occupying power, saddles the US with responsibility for frustrations resulting from French vetoes on action. Yet, it is hard for the US to exert pressure on France without strengthening the French conviction that German interests are being given exclusive consideration.

The solution of these difficulties is further delayed by the fall of the Queuille Cabinet. This political overturn was not primarily the result of devaluation. Its immediate cause was a disagreement among coalition parties over wage-price policy, and this issue was an old one which was gradually developing to a

S E C R E T

new critical point. Devaluation did, however, limit the possibility of compromise. While the new government will differ little from its predecessor, the political turmoil surrounding its formation has stirred up deep issues of French security and prestige while at the same time delaying the decisions that might resolve them.

c. Pakistan - India.

Among the political curiosities of devaluation is Pakistan's refusal to follow the crowd. The Pakistani Government is convinced that the nation's position as a supplier of raw materials is strong and argues that an ability to purchase capital goods at devalued prices will bring additional strength. Although this is generally considered to be a misreading of the economic facts, Pakistan's decision is serving further to embitter relations with India. Not only must India pay higher prices for Pakistan's raw materials, but Pakistan's debt to India has been automatically cut by 30 percent. Angry retaliatory measures have been announced. The immediate strain on the unstable economies of the two states is great and their already bad political relations will move still further away from adjustment.

3. USSR - Yugoslavia.

The Soviet war of nerves against Tito, which has now led to the abrogation of friendship treaties with Yugoslavia, increasingly reveals the disintegrating effect of Tito's defection on the structure of international Communism as developed by the USSR since the war. Tito's successful defiance is providing a focal point for scattered and unorganized dissident Communist groups. Although these dissidents range from old Trotskyites to new "national defectionists," Tito's defense of his position, by emphasizing a fundamental and unresolved strain in Communist doctrine and organization, may develop into a means of pulling together an anti-Stalin opposition.

The issue, of course, is whether world Communism will be politically dominated by the USSR or by an international and equalitarian Party apparatus; and whether world Communism will be a driving force in national revolutions or will be an agent of Soviet Russian imperialism. Tito has specifically questioned

the ideological leadership of the USSR by presenting his own position of equality of power within the Party apparatus as more orthodox and has, with more practical application, publicly undercut the Soviet claim to being the only model for a Communist state. Even if Tito does not actively encourage the growth of an anti-Soviet Communist movement, he will increasingly become the symbol for efforts aimed in this direction.

From the point of view of the USSR, the dangers in such a development cut so deep that the elimination of the major immediate irritant—Tito and the Tito-Communists—remain a priority objective of Soviet policy. Direct military action still seems improbable in spite of the strengthening of Soviet ground forces near Yugoslavia. But measures involving intense propaganda pressure, incitement to subversion and sabotage, and guerrilla activities will almost certainly be applied, with increasing vigor. The last of these measures is further examined below (see para. 4).

Tito has shown great skill in conducting the Yugoslav side of the conflict. Operating from a middle position between West and East, his timing of his resistance to or his giving in to the external pressures on this position has been remarkable. Now, by publicly seeking a seat on the UN Security Council in competition with a Soviet-endorsed candidate, he has transferred his display of independence from the Soviet-Satellite theatre to the world stage. The significance of this move is more to be measured by the undisguised violence of the Soviet reaction to it and by the fact that it has drawn out US support than by any practical differences its success might produce in the operations of the Security Council.

Yugoslavia, on the Security Council, would scarcely vote uniformly as a "tool" of the Western Powers. On the other hand it would certainly vote against the USSR when occasion required. Finally, but most important, the weapon of the veto is still available to the USSR to negate any seriously adverse action. Fears that the USSR might withdraw from the UN in this connection are wholly discounted. Whether or not Yugoslavia succeeds in its bid, Tito has converted a family quarrel into an East-West issue and has, with-

out committing himself to the West, maneuvered himself into a position where the West, through an international organization, will be obliged to support him by deterring the USSR from taking drastic counter-measures.

For the time being, and from the US point of view, there would appear to be considerable advantages in encouraging this change of venue for the Yugoslav-Soviet conflict. The more public the airing of ideological differences, the less monolithic will the structure of international Communism seem to be; and the larger the stage, the greater the spread of the disintegrating propaganda.

4. The Balkans.

The point of tension that has been reached in Yugoslav-Soviet relations requires reference to the present state of affairs in the Balkans, for in the Balkans alone could direct Soviet action be developed conveniently and "spontaneously" under cover of local issues. The USSR is able to develop an anti-Yugoslav policy through its controls in Hungary, Bulgaria, Rumania, and Albania. This capacity can, however, be offset somewhat by a *rap-prochement* between Yugoslavia and Greece, and by the uncertainties of the Albanian position. Furthermore, if the USSR wishes to press upon Yugoslavia through the Balkan satellites and, at the same time, avoid general military action, it can most easily work through traditional antagonistic nationalisms. Macedonia, involving as it does Yugoslav, Greek, and Bulgarian claims and interests, is the possible focus for such an effort. However, the excitation of Balkan nationalist feeling is a weapon difficult to handle and hard to keep fixed on a target.

A few months ago, when the Greek guerrillas began to be contained, there were signs of a Soviet intention to stir up trouble in Macedonia, apparently to feel out the strength of Yugoslav control, or to aid the Greek guerrillas. No serious weak spots were uncovered in the Yugoslav position. The attempt to create unrest by stirring up Albanian and Slavo-Macedonian minorities met with no visible success. But, since then, jockeyings for position in the larger field of conflicting Yugoslav and Soviet interests have intensified.

The Greek guerrillas have now been reduced to about 2500 in Greece. Mass withdrawals into Albania and Bulgaria suggest that large organized guerrilla operations have come to an end. For the first time since 1941, the northern border of Greece is under Greek control. In comparison with the situation a few months past, the capacity of the guerrillas to attempt to negotiate with the Greek Government is almost nonexistent.

The Greek Government, now confident of its strength, is even cooler than before to any thought of compromise, is retreating from the idea of too broad an amnesty, and is showing reluctance to relax its existing security measures. The more ardent elements have even considered pursuing the guerrillas across the border into Albania, an operation that could only too easily develop into a settling of old and outstanding scores in this area. The dangers implicit in these proposals led to strong American and British restraining advice. The Greek Government has now pledged itself not to move against Albania and is instead urging the UN to act to check any renewal of infiltration from Albania and Bulgaria.

Concurrently with these developments, both Greece and Yugoslavia, urged by the US, have improved their positions by gradually improving their relations. The play has been and still is complex, but generally, the result has been to reduce the capacity of the USSR to achieve its ends in Greece. At the moment, and given the Soviet need to concentrate on the Tito heresy, the USSR is de-emphasizing the guerrilla war in Greece, possibly in preparation for re-orienting guerrilla activities against Yugoslavia. A refocussing of guerrilla strength to exploit the chronic aspirations of the Slavo-Macedonians would serve a double purpose. On the one hand, it would seek to harass Tito and the Yugoslav Federation in which two-thirds of the Slavo-Macedonians have been incorporated. On the other, trained guerrilla units operating in Macedonia would be available to threaten Greece with a renewal of attacks whenever circumstances seemed favorable. The main check on a Soviet use of Macedonia for these purposes lies in the fact that Tito is in a comparatively favorable political and military position in the area.

S E C R E T

6

5. Far East.

a. China.

The establishment of a Communist-controlled "People's Republic of China" and Soviet and Satellite recognition of the new regime raise four main issues affecting US security interests. At present it is possible only to identify problems, the resolution of which will be a matter of importance in the Far East for some time.

(1) The nations of the North Atlantic Community, although anxious to maintain a common front on China, will tend to react according to widely divergent interests and opinions on the best course to follow in regard to recognizing the new regime. Although for the present the UK appears willing to follow the lead of the United States, extensive UK economic interests are pressing for de facto recognition and restricted trade.

(2) The weak governments of Southeast Asia will find themselves under increasing pressure to regularize their relations with Communist China. A policy of non-friendship would expose these countries to greatly increased threats to their security, and they can be expected to follow such a course only if they receive assurances of protection by larger powers, preferably by the US.

(3) The Soviet bloc will support the Chinese Communists' claim to succeed the Nationalists in the United Nations and in other international organizations, particularly the Far Eastern Commission, and the Allied Council in Japan. The grounds for opposing this claim will be weakened progressively by the diminishing strength and prestige of the Nationalist remnant and by eventual recognition of the new regime by non-Soviet countries.

(4) Finally, the new situation will make it necessary for the US sooner or later to clarify its relations with the National Government. In particular, the new Communist Government's professed determination to gain control over all territories once a part of Nationalist China, will before long turn the spotlight on Taiwan, control of which is of considerable significance to the US.

b. Indochina.

The possibility that the governments of Southeast Asia will recognize Communist-

controlled China and the probability that Indochina will fall completely into the hands of a Communist-oriented government adds to the difficult security problem in Asia. With the forces now available, the French can do no more than maintain the present stalemate in which French troops occupy major cities and strategic positions in the Red and Mekong deltas, but actually control only 10 percent of the disputed territory. The political strength of the anti-colonial nationalist movement, the bulk of which has rallied to Ho Chi Minh, has encouraged the Vietnamese to hold out for unconditional independence. The Bao Dai regime, gravely handicapped by French slowness in transferring substantial elements of sovereignty as agreed in March, has been unable to avoid the implication of being a French puppet government. It is unlikely that Bao Dai will be able to win over any appreciable part of the resistance movement unless the French grant his government an independent status within the French Union. Even under these circumstances, there is no assurance that Bao Dai could muster sufficient local backing to prevent a nationalist government, hostile to both the French and his own regime, from taking over power.

If present circumstances continue basically unchanged, the Vietnamese nationalists will probably be able to drive the French out of Indochina within two years. The acquisition of power by a government under Ho Chi Minh, in conjunction with pressures from Communist China, would almost certainly greatly strengthen an existing tendency in Thailand, Burma, and Malaya to seek accommodation with Communist China. Since Indochina may prove to be the key to control of the whole Southeast Asia peninsula, it also might be the critical breach in the non-Communist crescent around China, which now consists of India, the Southeast Asia peninsula, Indonesia, the Philippines, and Japan. The US interest in preserving this crescent intact is therefore threatened by the current trend in Indochina.

c. Indonesia.

The strength of another component of the non-Communist crescent hinges on finding a reasonable compromise between the Nether-

S E C R E T

S E C R E T

7

lands and the Indonesian nationalists at the Hague Conference. Progress toward agreement on the structure of the Netherlands-Indonesian Union and future financial relations between the partners in the Union has been slow. Negotiations envisaging the assumption of the old Indies Government debts by the new United Republic of Indonesia have been particularly difficult, and the success of the conference may well hinge on the settlement of the issue. The cease-fire order in Indonesia has continued to be well observed, but many of the nationalist elements are becoming restive and critical of what they consider to be unnecessary delays at The Hague. Republican officials at home and abroad have had to defend Premier Hatta against charges of being too conciliatory with the Dutch.

6. Latin America.

During the month no serious effects have appeared in Latin America in the wake of the devaluation of European currencies. Only one country—Argentina—has made a significant response. It put into effect a complicated readjustment of peso exchange rates and export prices in an apparent attempt to expand its export trade, particularly in dollars, and to discourage imports of “non-essential” items.

A number of conditions in the area, however, have been adverse to US interests in Hemisphere solidarity. The continued hostility between antagonistic countries in the Caribbean were highlighted this month by

Nicaraguan-Costa Rican charges, counter-charges, and denials of hostile intent. There were no signs during the month of any abatement of revolutionary preparations by the Caribbean Legion—activities which have made more acute the tension between the “democracies” and “dictatorships” in the Caribbean area. Satisfactory diplomatic relations do not exist between many of these countries. Colombia has not yet resumed relations with Paraguay; Guatemala, Bolivia, Chile and Uruguay still do not recognize Venezuela. Uruguay, Costa Rica, Guatemala, and Cuba (which recently broke relations) do not recognize Peru. Costa Rica and Guatemala have broken relations with the Dominican Republic. Bolivia, Chile, and Uruguay do not recognize El Salvador. Guatemala has no relations with Nicaragua.

There are certain situations also which have been at odds with the US interest in politically stable governments. In Colombia, the increasingly tense political situation, which has but little chance of resolution before the coming elections, has been marked by violent clashes between Conservatives and Liberals. Even though the Bolivian Government successfully suppressed an insurrection, the effort was great, the cost was considerable, and the political and economic situation still retains many of the characteristics which previously made the government vulnerable to attack. Paraguay, which during 1949 has had four changes in government, is still so politically unstable that it has recently found it necessary to declare a state of siege.

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